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Director
Central
Intelligence

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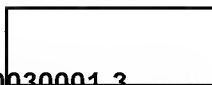
National Intelligence Daily

***Wednesday
10 January 1979***

State Dept. review completed

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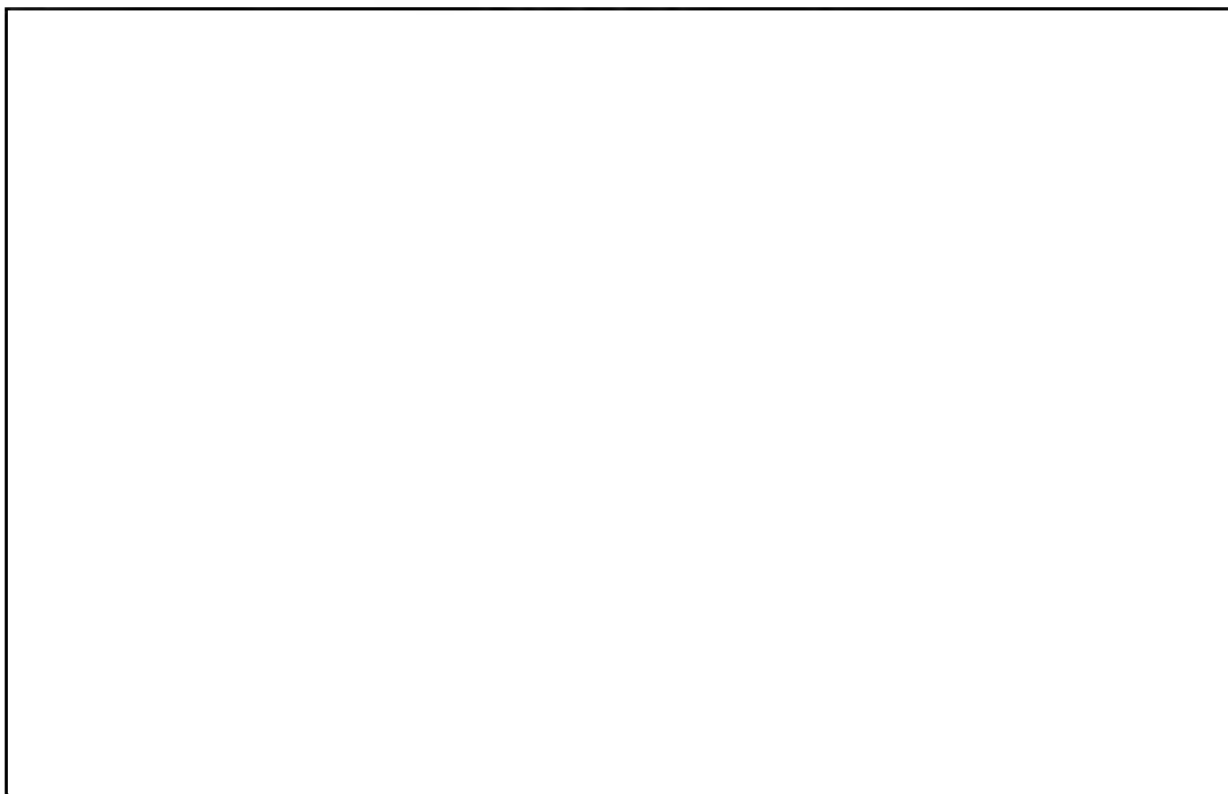


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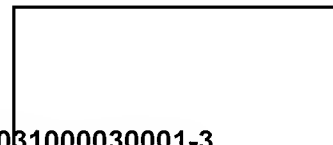
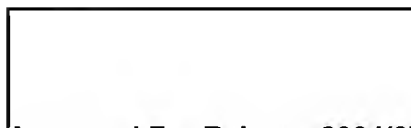
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SITUATION REPORTS

IRAN

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Members of the Liberation Movement of Iran, led by Mehdi Bazargan, have told a US Embassy officer that they see a need for a transitional government to defuse the violence of recent months. We suspect that this group, which is affiliated with the National Front, is trying to carve out a role for itself in the post-Shah political era and is willing to give Bakhtiar a chance only because it is fearful of the repression that would accompany the overthrow of any civilian government by the military.

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We believe that both Sanjabi and Bazargan will be willing to give Bakhtiar a breathing space only as long as they think the Shah will actually leave the country. Neither has a mass following in Iran and neither will be able to counteract the influence of Ayatollah Khomeini, who has already called on his followers to reject the Bakhtiar government.

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Bazargan and other leaders believe they will have to follow Khomeini's lead in public at least.

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The economy remains at a virtual standstill. Despite reports that some oil field and refinery workers are willing to return to their jobs, oil production thus far has failed to increase from the 200,000 to 300,000 barrel-per-day level registered since the beginning of the year. [REDACTED]

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Foreign transactions remain frozen as a result of the continued strikes by customs and Central Bank employees. The Central Bank has been shut since late November and other commercial banks cannot function without Central Bank services. [REDACTED]

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Beginning this month, the government's financial position will begin to erode; because of the time lag in oil payments Iran has been receiving near normal oil earnings until now, despite the severe drop in exports that began in late October. Official foreign exchange reserves are still above \$10 billion, but could fall by \$3 billion to \$5 billion when the backlog in demand for foreign exchange to cover overdue payments is worked down over the next three months. The government will have difficulty in meeting its payroll beginning next month, [REDACTED]

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[REDACTED] He believes the government will have to print money if it is to make those payments. [REDACTED]

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VIETNAM-KAMPUCHEA

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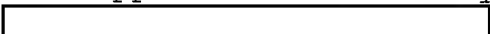


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UN Activity

A formal UN Security Council session to discuss the Kampuchean situation could be called as early as today. Informal consultations indicate that all the Council members, except the USSR and Czechoslovakia, favor convening a formal meeting. The Soviets could block inscription of the item, but do not appear to be actively seeking support to this end. 

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A likely outcome of the session would be a resolution sponsored jointly by the West and nonaligned states that neither the Soviets nor the Chinese would oppose. The resolution would call for restraint on the part of all parties involved and offer the good offices of the UN Secretary General to mediate the crisis. Such a resolution would strengthen Secretary General Waldheim's hand if he proceeds with his planned visit to Kampuchea and Vietnam. 

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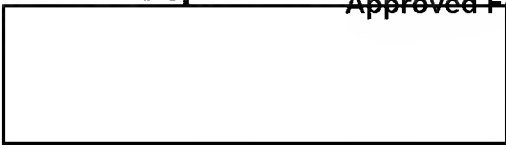
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